92d Congress }
1st Session }
COMMITTEE PRINT

THE ROLE OF THE UNITED STATES IN EAST-WEST TRADE

REPORT BY SENATOR ABRAHAM RIBICOFF
TO THE COMMITTEE ON FINANCE

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

AUGUST 10, 1971

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
65-690 WASHINGTON : 1971

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 20 cents
Stock Number 5270-1151

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

CLINTON P. ANDERSON, New Mexico
HERMAN E. TALMADGE, Georgia
VANCE HARTKE, Indiana
J. W. FULBRIGHT, Arkansas
ABRAHAM RIBICOFF, Connecticut
FRED R. HARRIS, Oklahoma
HARRY F. BYRD, Jr., Virginia
GAYLORD NELSON, Wisconsin
WALLACE F. BENNETT, Utah
CARL T. CURTIS, Nebraska
JACK MILLER, Iowa
LEN B. JORDAN, Idaho
PAUL J. FANNIN, Arizona
CLIFFORD P. HANSEN, Wyoming
ROBERT P. GRIFFIN, Michigan

TOM VAIL, *Chief Counsel*

SUBCOMMITTEE ON INTERNATIONAL TRADE

ABRAHAM RIBICOFF, Connecticut, *Chairman*

HERMAN E. TALMADGE, Georgia
GAYLORD NELSON, Wisconsin
RUSSELL B. LONG, Louisiana, ex officio
PAUL J. FANNIN, Arizona
CLIFFORD P. HANSEN, Wyoming
WALLACE F. BENNETT, Utah, ex officio

ROBERT A. BEST, *Professional Staff*

CONTENTS

APPENDIXES

LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., August 6, 1971.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate.

DEAR MR. CHAIRMAN: Along with yourself and Senators Bennett, Fannin and Hansen of the Finance Committee's Subcommittee on International Trade, I attended the Tenth Annual Ministerial Meeting of the OECD in Paris, June 7 and 8 of this year. Following the conclusion of this meeting, I travelled to Romania and Hungary from June 9 to 16 accompanied by my Legislative Assistant, Morris Amitay, to explore the prospects and problems of increased American trade with the East.

Although I spent only a few days in each of these countries, I was able to have frank discussions with ranking Romanian and Hungarian officials directly involved in conducting their countries' trade and foreign relations. I also consulted with our diplomatic representatives in both Bucharest and Budapest and with private Americans doing business there.

While in Bucharest from June 9 to June 12, I had talks with the following Romanian officials:

Aurel Vijoli, Chairman of the Economic and Financial Committee of the Grand National Assembly
Nicolae Anghel, Deputy Chairman of the Board, Romanian Bank for Foreign Trade
Nicolae Nicolae, Deputy Minister of Foreign Trade
Ian Patan, Vice President of the Council of Ministers

In Budapest, June 12 to June 15, I met with the following Hungarian Government representatives:

Lajos Faluvegi, Minister of Finance
Jeno Baczoni, First Deputy Minister of Foreign Trade
Odon Kallos, President, Hungarian Chamber of Commerce
Istvan Salusinszky, Director, Foreign Trading Bank
Jozsef Marjai, Deputy Foreign Minister

On June 15, I delivered the keynote address to the annual East-West Trade Conference of the Management Center of Europe. This gathering, the first of its kind in Budapest, was attended by some 200 businessmen, bankers, industrialists and government officials from Eastern and Western Europe, Japan, and the United States.

In both Hungary and Romania I was deeply impressed by the visible economic progress being made. Equally evident was both nations' desire for increased commercial ties with the United States and their genuine admiration for American technological achievements. I was dismayed, however, by the relative lack of American participation in the trade and investment opportunities in Eastern Europe. In hotels and airports I saw French, German, Italian and British businessmen with bulging briefcases—but hardly any Americans. I returned from my visit determined to see that American firms and workers share in the benefits of increased trade with the East.

With the growing importance of ecopolitics and the relative decline of geopolitics in the affairs of nations, I feel that it is time to abandon outmoded attitudes toward trade with the East, and begin taking advantage of the ample economic opportunities these countries now offer.

At an appropriate time before the end of the year, I would hope that the Subcommittee on International Trade will hold hearings on all aspects of trade with the East, including China. In the meantime, I intend to sponsor and support legislative measures to normalize our trade relations. In accomplishing this worthwhile goal I feel we will be substituting stronger economic ties based on mutual self-interest for more fragile diplomatic relationships. By doing this we will be promoting both the economic well-being of the United States as well as the cause of world peace.

Sincerely,

ABE RIBICOFF,
Chairman, Subcommittee on International Trade.

Background

Since 1947 American trade with countries with nonmarket economies (except Yugoslavia) has been treated separately from our general foreign trade policies. With the onset of the Cold War, special restrictions were applied to trade with the countries in Eastern Europe, the Soviet Union, and later to Mainland China, Cuba, North Korea and North Vietnam. These restrictions included export controls on strategic items, import restrictions, limitations on the financing of exports, and shipping controls. In addition, we sought to coordinate similar controls on the part of our Allies.

Today, more than twenty years after the institution of these restrictions, it is appropriate to ask whether continuing these barriers furthers the national interest. Given the changed economic and political conditions in Europe in 1971, retention of these restrictions is anachronistic. These restrictions have failed to weaken the military potential of our adversaries and have similarly failed to stifle their economic progress. At a time when the cold war is being relegated to the pages of history, our own country should cast aside its self-imposed shackles and take a more forward-looking position with regard to economic ties with the East.

While the United States carefully circumscribed its economic relations with communist nations, our NATO allies displayed far fewer compunctions against trading across ideological borders. The figures on western trading with the East tell the story quite dramatically. Total free world trade with the USSR and Eastern Europe amounted to about $18 billion in 1970. Of this total, the United States share was only $579 million. This amount was 3 percent of total western trade with the East, and less than 1 percent of our own total foreign trade.

Even with our limited volume of trade we enjoyed a two to one ratio of exports to imports and a $127 million surplus. Viewed in the light of our own nation's high unemployment rate and faltering economy, these figures underscore the benefits that would accrue to the United States from expanded trade with the East.

In preparing the way for expanded commercial dealings with countries with nonmarket economies, Americans must be prepared to discard popularly held myths about communist countries. It should be kept in mind that in trading with these countries we are not dealing with a single economic entity. Once you have seen a single communist country you have *not* seen them all. The "many paths to Socialism" are reflected in the variety of methods employed by eastern countries seeking to modernize and reap the benefits of foreign trade and industrialization.

Varying degrees of economic decentralization exist in Eastern Europe. Major adjustments have been made in Marxist theory to fit the realities of international trade and industrial development in a number of these countries. The attempt by the Soviet and Eastern

European economic bloc, COMECON (Council for Mutual Economic Assistance), to become a supranational trading entity has failed, and increasingly, eastern countries, including the Soviet Union, are looking westward to solve their persistent economic problems.

In 1969 with passage of the Export Administration Act, the Congress went on record as endorsing expanded trade with Eastern Europe and the Soviet Union. It is time to carry out this expression of policy with appropriate legislative and executive actions.

The Trade Potential for the United States

It has been estimated that if appropriate modifications are made in present laws, U.S. trade with Eastern Europe could reach $2 billion by 1975, more than three times the 1970 level. Other estimates are even more optimistic running to a total of $5 billion by 1975. The beneficial effects such an increase would have on our high unemployment rate, balance of payments deficits and worsening trade position are obvious.

The rapid growth in recent years of U.S. trade with eastern countries supports these optimistic projections. Between 1966 and 1970 U.S. exports to Eastern Europe rose from $198 million to $353 million. During this same period, U.S. imports increased from $179 million to only $226 million. (Figures on U.S. trade with Eastern Europe are printed at appendix A.) In 1971 it is expected that U.S. export will reach $460 million and imports, $240 million, for an approximate total of $700 million.

The countries of Eastern Europe, the Soviet Union and China all have a great unsatisfied need for the high technology equipment and products that our country excels in producing. Despite its advances in certain fields, the Soviet Union is estimated to be 20 years behind our own country in computer technology. Other potential markets for the same kinds of American exports in Africa, Asia and South America are many years away from being able to absorb a high level of technology.

Political winds may blow hot and cold, but the trade winds between East and West have been sending a steady stream of orders to West Germany, France, Italy and Great Britain. The Fiat plant in Togliattigrand, Russia is soon to produce 600,000 automobiles a year. The scent of profits has already reached Japan, and ambitious plans are being made for joint Soviet-Japan exploitation of the mineral wealth of Siberia.

By 1971 the countries of Eastern Europe have in varying degrees reached a point of departure from dependence on the Soviet Union. By now they know quite well what the Soviet Union offers, but increasingly they want more of what the West and the United States offer.

The East's participation in world commerce has been growing at the impressive rate of 8½ percent per year, and the merchandise trade between East and West has been increasing at the rate of 15 percent a year. However, the future growth of East-West trade depends on the ability of the East to provide, and the West to absorb, a much larger volume and variety of manufactured products. Realistically, Western Europe will only be able to accommodate a marginally and gradually increased flow of eastern goods. For the smaller communist countries a major impetus to further integration into the world economy can only come from a sizable increase in markets in the United States.

Why We Do Not Sell More to Eastern Europe

Paradoxically, a large proportion of U.S. exports to Eastern Europe in recent years has been composed of agricultural commodities—hides, soy beans, grains, sorghum, and other foodstuffs. But the primary interest of these countries is in acquiring advanced industrial technology to speed their modernization.

Our own country still maintains a considerable competitive edge in the following areas—computers, chemical equipment, petroleum installations, synthetic rubber, food processing machinery, metallurgy, pharmaceuticals and automobile engineering. But to date, the value of high-technology transactions with the West has been almost negligible. Various reasons for this situation exist:

1. U.S. controls on exports to the communist countries are still more extensive than the multilateral strategic embargo (COCOM) restrictions administered in varying degrees by other Western countries.

2. Present law does not permit the granting of most-favored-nation tariff treatment to any communist countries except Yugoslavia and Poland. As a result, imports from those countries pay the full 1930 statutory duty rates rather than the lower rates that have resulted from successive tariff reduction negotiations.

Poland provides a most vivid example of how trade can be expanded if most-favored-nation treatment is granted. In 1962, without it, Poland exported $46 million of goods to the United States. In 1970, this figure was $98 million with most-favored-nation treatment.

3. Since March, 1968 the Export-Import Bank has been prohibited by the Fino Amendment from financing exports to communist nations (except Yugoslavia) as long as they are supplying goods or assistance in North Vietnam. The Senate voted overwhelmingly last April to remove this restriction, but the House in a much closer vote, sustained it. In the House-Senate conference, this restriction was deleted, and final enactment is now pending. When this restriction is finally removed, it will undoubtedly produce a spurt of export activities to both Hungary and Romania, countries for which export credits had previously been used amounting to $41 million and $21 million respectively.

The longer normalization of commerce is put off, the harder it will be for American firms to alter these trade patterns which the East is already establishing with Great Britain, France, West Germany, Italy and Japan.

Marx Versus Economic Reality

Wherever traditional Marxist dogma has clashed head-on with the realities of economic development in both the Soviet Union and Eastern Europe, ideology has come off a very poor second. The goal of the development of socialist self-sufficiency by trading only within the COMECON has been abandoned. Trading exclusively within an economic bloc of any kind in an increasingly interdependent world is bound to stifle economic development.

Although the Soviet Union devotes even a smaller percentage of its GNP to foreign trade—5 percent, than the United States—8 percent, this is not the case with most European countries. Because of the flow of foreign goods, Russian tourists in Eastern Europe are dazzled by the variety and quality of the goods available. The fact that the people living there enjoy a higher standard of living than they do is certainly not lost on these Soviet visitors.

As trade with the West has increased since the demise of Stalin, so has reliance on western commercial practices. For instance, the East still relies almost entirely on a western pricing system for their own goods. A Soviet participant at the East-West Trade Conference in Budapest wryly commented that "if world revolution were successful, we would still have to keep at least one capitalist country so we would know how to set our prices." Such expressions of candor are not rare, nor is there any embarrassment associated with the eastern enthusiasm for western know-how.

The need for increasing economic cooperation with the rest of the world is grudgingly being accepted as more communist leaders realize the political perils of a mismanaged economy. The recent leadership changes in Poland testify to this most vividly. In seeking historical precedent for this shift away from socialist self-sufficiency, communist economic planners may recall that in 1938 the United States was the largest supplier of foreign goods to the USSR. This could be the case once more in 1978 if both nations permit commerce to develop in a less political atmosphere.

Perhaps the clearest expressions of the failures of the application of Marxist theory to the problems of economic development in the second half of the 20th Century have been the invitations in recent years by the Soviet Union to Fiat, IBM and Mack Truck to build modern automobile, computer and truck industries in Russia. The law of comparative advantage is no longer looked upon by eastern economists as a decadent capitalist philosophy, but as a working model for economic and industrial progress.

In Hungary I was shown a copy of that country s most recent five year plan in which the following target was listed—"increased participation in the international division of labor", along with the statement, "our economic connections shall be extended with all countries which are ready to establish such connections on the basis of mutual advantages".

In the past, intrabloc trading was given a high priority as the socialist states strove to be self-sufficient. But by 1970, the figures showed that 40 percent of the East's total trade turnover was with nonsocialist countries, 25 percent of it with OECD nations.

Faced with the painful choice of accepting western investment and know-how on one hand and stagnating economies on the other, communist leaders—an increasing number of whom are economists—are adapting their dogma to economic realities.

What the East Must Do

Given the increasing reliance by the East on the West to modernize, we could be on the threshold of a period of greatly expanded trade and investment ties with the East. However, formidable obstacles must be overcome by the East as well, before such a take-off point can be reached.

One basic inhibiting factor is Marxian theory which relegates foreign trade to a secondary economic role in carrying out a master economic plan. This is particularly so with regard to the Soviet Union, and the People's Republic of China, the country which most closely conforms to the Soviet model.

Another more practical obstacle is the East's chronic shortage of convertible currencies. As a result, trade deals invariably must involve the financing of long-term credits to pay for imports. Another negative side effect of this shortage is that eastern traders will insist on methods of payment which American businessmen are not accustomed to. These include payments in kind, arrangements for marketing in third-countries and straight barter deals. There are some signs of movement in attempting to solve the currency shortage. Hungary and Poland as relatively developed nations apparently favor greater currency convertibility, but the less developed Eastern European countries remain opposed.

Another barrier which eastern countries must overcome if they are to increase their exports to the United States is the relative sophistication of American markets. Even if MFN treatment is applied to their imports, a real effort will have to be made by communist countries to produce goods suitable for American tastes, under competitive conditions.

There is general agreement that the bulk of Eastern European exports must be in manufactures. It is difficult to see how this will come about unless these countries make more of a determined effort to produce specifically for export instead of regarding this aspect of their economy as a means of disposing of surplus goods. Western Europe already has an annual $200 million trade surplus with the East. If the present trend continued this would increase to $3.5 billion by 1980—clearly an impossible trade situation for the East.

My own discussions and observations in Romania and Hungary offered me some insights into both the problems and the prospects of expanding American commercial ties with these countries.

Romania

Romania, a nation of 20 million people, is more widely known in this country for its independent foreign policy stance than as a trading partner that received $66 million in exports from the United States last year. Romania's cordial relations with both the United States and the People's Republic of China, and its vocal opposition to the Soviet intervention of Czechoslovakia in 1968 have made it a maverick in Warsaw Pact circles. However, the facts of Romania's geography dictate the limits of its political and economic independence. Romania shares a common 500-mile border with the Soviet Union, and remains very much aware of this fact.

In keeping with its desire to maintain an independent stance in its foreign policies, Romania has determinedly sought to expand trade contracts with the West, and particularly with our own country. From an almost complete dependence on its Eastern European and Soviet neighbors for trading opportunities, Romania today carries on roughly half of all its foreign trade with western countries. Partially as a result of this willingness to trade with a variety of countries, Romania has been able to maintain an impressive annual industrial growth rate of almost 12 percent. This heavy emphasis on the rapid development of its industrial sector, has not been without sacrifices in other areas. There are fewer cars, restaurants or consumer goods in Bucharest, than in Budapest. But Romania made a basic decision to industrialize rapidly, while Hungary has concentrated on paying greater attention to consumer needs.

Romania has already made notable gains in the development of its power, mining, construction, metal processing and machine building industries. Romania's refusal to remain a supplier of raw materials to the other COMECON members according to the Soviet plan was a primary cause for its original estrangement from the Soviet Union. Since then relations with the United States have become warmer. The Presidents of the United States and Romania have exchanged visits, and trade between the two countries has increased.

Romania has also sought friendly ties elsewhere. During my own visit to Bucharest, President Ceausescu was in China, accompanied by other top ranking officials. Foreign Minister Manescu was in Canada, and Vice Chairman Patan spoke to me of his recent visit to Africa.

Romania is particularly interested in establishing joint ventures with American firms. Last March, Romania passed an investment law which would permit foreign firms to own up to 49 percent of the equity of such a joint venture. This law (reprinted at appendix B) also permits the repatriation of profits and capital. Two large American companies already engaged in industrial operations in Romania are American Metals Climax and Corning Glass. From my own conversations with a representative of the latter company, the experience of his firm has been quite satisfactory.

Two-way trade between Romania and the United States increased very significantly during the last 3 years with the total trade turnover now totalling some $80 million. But the trade picture is cloudy. Romanian officials emphasized that the lack of most-favored-nation treatment did not permit Romania to redress the serious imbalance of trade between the two countries. This current imbalance is roughly 5 to 1 against Romania. Since trade is a two-way street, we cannot hope to continue to export more to Romania without buying more.

The following figures on Romania trade reveals the extent of the growing imbalance in our trade.

OVERALL TRADE FIGURES (ROMANIAN SOURCES)

[Dollars in millions]

	1968	1969	1970	1971 (estimate)
Total imports	$1,609	$1,740	$2,000	$2,165
Imports from United States	$16.7	$32.4	$66.4	$90
U.S. share of imports (percent)	1	1.8	3.3	4.2
Total exports	$1,469	$1,633	$1,800	$1,980
Exports to United States	$5.6	$8.0	$13.4	$17
U.S. share of exports (percent)	.4	.5	.74	.9
Total trade deficit	$140	$107	$200	$185
Deficit with United States	$11.1	$24.4	$53	$73

Largely as a result of our improved political relations with Romania, export control restrictions have been liberalized. At present Romania is roughly in the same position as Yugoslavia in this regard. But because of the lack of Eximbank credits and MFN treatment, our own country is still far behind other western nations such as West Germany, Italy, and U.K., France and Austria in trade with Romania.

To date the bulk of American exports to Romania has not been in industrial and high technology products, but in items such as grains, woodpulp, hides, coke and coal. Based on my own discussions there, I have no doubt that Romania wants much more collaboration with American firms in developing a variety of industries and also wishes to purchase more goods.

Since my return from Eastern Europe, I have been informed of the possibility of the Boeing Company's sale of two to four Boeing 707 aircraft to the Romanian national air carrier, TAROM. Romania could use these aircraft to fly to New York as a bilateral right for Pan Am's service to Bucharest. Aside from anticipated Soviet displeasure that a roughly comparable Ilyushin aircraft would not be purchased, Romania's major difficulty will be in finding the $26 million in hard currency to pay for two of these aircraft.

Part of Romania's problem is that they have insufficient dollar credit to pay for the aircraft because of their negative balance of trade with the United States.

This negative balance of trade can be attributed to the excessive import duties levied upon Romanian products entering the United States because of their exclusion from the most-favored-nation treatment. Another obstacle is the restriction placed financing this transaction with Export-Import Bank credits.

Assuming a successful sale to Romania of two aircraft, this could lead to follow-on orders from TAROM amounting to four to five times the initial order. According to Boeing, this could also trigger a domino effect, with other East Europe nations buying similar equipment to improve their competitive position. Because Romania enjoys excellent relations with Mainland China, a successful business venture in Romania could provide an avenue for entrance to Mainland China for American airplane sales. The market potential here is estimated by Boeing at 40 to 50 airplanes in this decade.

The benefits from these sales for American plants and workers would be considerable. However, the twin obstacles of lack of MFN treatment and restrictions on obtaining credit stand in the way. In Romania, I was told of other instances where American firms through no fault of their competitiveness have missed the boat because of these restrictions.

Some Case Studies in Frustration

1. The British office of an American engineering firm recently agreed to sell a $20 million ammonia plant to Romania. The American company could have supplied the major portion of the equipment from the United States if competitive credits had been available. Because they weren't even though the engineering and technology were of American origin, the equipment will be supplied from British and West German sources.

2. Another British subsidiary of an American firm, in this case a manufacturer of earthmoving equipment, sold several million dollars

worth of equipment to Romania for use in irrigation projects. If credits had been available, all or most of the earthmoving equipment could have been supplied from the U.S. plants of this manufacturer. As it was, all the equipment came from the plants of this manufacturer located in Britain.

3. At the time of my visit, an American manufactuıer of automatic control equipment was in active competition with a West German bidder for a multi-million dollar contract to supply equipment for a large Romanian steam generating plant. A determining factor in the award of this contract was the credit terms. The U.S. firm was understandably concerned that lack of a good financing package, which included Eximbank participation, would prevent it from winning the contract.

In many other cases representatives of U.S. firms have informed our Embassy in Bucharest that their firms were dropped from consideration at an early stage of negotiations because of existing restrictions.

The above examples also highlighted the fact that considerable trade is conducted between U.S. subsidiaries and affiliates in Western Europe and eastern customers. This indirect trade in American goods probably amounts to seveıal times the value of direct U.S. exports. While these transactions ultimately benefit the earnings of the parent firm, they do not provide jobs for American workers in American plants.

HUNGARY

It is easy to understand why Budapest is called "the Paris of the East". In life style, cuisine and the preservation of a rich cultural heritage, Budapest today compares well with Paris. Judging from the large number of private cars on the streets, it will not be long before Budapest will be experiencing one of the inevitable side effects of economic progress—daily traffic jams.

But Hungary is also making steady progress in implementing the goals of its economic reform program called the New Economic Mechanism (NEM). Initiated in January, 1968, this program has decentralized the economic decision-making powers of the state, recognized the role of the marketplace in pricing, and put a premium on initiative by individual plant managers.

For good reasons—namely the Soviet armored division unobtrusively ringing Budapest—the Hungarians are reluctant to publicize these changes or even term them "reforms". Whenever possible they cite some socialist precedent for their own innovations. The economic success Hungary has been enjoying has been a beacon to the rest of Eastern Europe. Poland and Czechoslovakia, are paying close attention to the Hungarian experiment. While Hungary remains a full partner in the Warsaw Pact and in COMECON, and toes the line on foreign policy issues, it has been able to get economically what Czechoslovakia was invaded for because of the political content of its own reforms.

In discussing the NEM with Hungarian officials I was struck by their commitment to decentralization, and profit and market-oriented management. Management tools commonly used in the West are replacing the rigid administrative directives and detailed targets predetermined by a central authority in more orthodox Marxist economies. Bonuses for both plant managers and workers now depend on the initiative and productivity of individual enterprises.

As another indication of Hungary's willingness to experiment with its economy, the National Bank of Hungary recently floated $25 million in bonds on the Eurodollar market. Hungary was the first of the eastern countries to do so, and judged from the success of this bond issue, others may follow. I was told that there was no particular development project in mind for this loan. Hungary merely wanted to test this source of credit for possible future recourse to the $50-$60 billion Eurodollar Market. Given the success already achieved through these distinctly free enterprise devices, this "creeping capitalism" will probably spread to other socialist countries. The de facto acceptance of the profit motive will inevitably have far-reaching consequences for the future evolution of socialist societies.

Trade between the United States and Hungary has grown rapidly from a very small base. In 1970, U.S. exports to Hungary had a total value of $28 million, a four-fold increase over the previous year. This upward trend in exports shows every sign of continuing into 1971. But as in the case of Romania, the trade imbalance is almost 5 to 1 in our favor. It was pointed out to me that Hungary can secure no more than 5-year credits from U.S. banks at commercial rates, but in Western Europe they are able to get 8- to 10-year credits on large investment projects at subsidized rates.

The Hungarians I spoke to complained of the restrictions and discriminatory MFN treatment that hampered trade relations between the two countries. It is difficult to counter the arguments they made on economic grounds with the official U.S. Government line that political solutions of outstanding problems must precede the removal of restrictions.

Like the Romanians, the Hungarians are also eager for partnership arrangements with western firms. Both countries have opened Inter-Continental Hotels in their capital cities with capital and management from American sources. These modern hotels are as good as any in Europe, and other similar ventures are planned.

By a recent act of the Hungarian Parliament, the Minister of Finance may approve agreements whereby western firms may become involved on a minority equity basis in joint ventures in Hungary. Americans seeking to do business in Hungary will find that they can deal directly with plant managers instead of having to go through a bureaucratic maze.

While I was in Budapest, I delivered the keynote address to an East-West trade conference. This was the first conference of this kind held in Budapest with participants from all over Eastern and Western Europe, the USSR, the United States and Japan.

In my remarks, (the text is reprinted at appendix C) I pointed out the formidable barriers to East-West trade. But I emphasized that, as all nations realize that efficiency means greater reliance on economic rather than political considerations, capitalist and communist economic systems will inevitably move closer to each other.

I also outlined my proposal for an exchange program between the United States and eastern countries to overcome mutual ignorance of each other's economic systems and to assist in the development of closer economic ties.

TRADE WITH CHINA

Given the recent improvement in our relations with the People's Republic of China and the President's planned visit to Peking, it is appropriate to include China in any discussion of American trade with the East. Some steps have already been taken to ease restrictions against American trade with China.

In December 1969, foreign subsidiaries of U.S. firms were given permission to conduct nonstrategic trade with Mainland China. In April 1970, American-made components of foreign-made, nonstrategic goods were allowed to be shipped there. Four months later the bunkering of ships carrying nonstrategic cargoes to China was permitted. In April 1971, the President announced that certain types of direct trade and other contacts between peoples of the United States and Mainland China would be permitted. The easing of restrictions on a large list of nonstrategic U.S. goods for China by the President on June 10 was the most important step to date in paving the way for a normalization of trade relations. (The announcement is printed at appendix D.)

There is a large potential market for western goods in China. In 1969, the latest year for which reliable data is available, the two-way trade between noncommunist countries and Mainland China totalled about $3 billion—$1.4 billion in exports, and $1.6 billion in imports. Manufactured products—primarily metals and chemical fertilizers—comprised three-fifths of the exports. Wheat, rubber and textile fibers made up virtually all of the remainder. With China's population reaching 1 billion by the end of this decade, she could become a major importer of agricultural commodities and certain manufactured goods. The United States, as the world's most efficient producer of agricultural products, could stand to benefit from this potential market.

In spite of the relative isolation of Mainland China from the Western World, fully 80 percent of her total trade in recent years was with non-communist countries, principally Japan, Hong Kong, Singapore, West Germany and the United Kingdom (figures are printed at appendix E). The Federal Republic of Geramany and Japan are doing a booming business with China in textile machinery, power generating equipment, construction and mining equipment and chemicals, all products in which the United States is still highly competitive. In 1970 Japan's total trade with China totalled approximately $820 million, of which $570 million represented exports, and West Germany's total was $320 million.

Unlike Eastern Europe, China has not been following a policy of a strict bilateral balancing of trade. The countries which have been major suppliers of grain buy very little from China, while her principal purchasers—Hong Kong and Singapore—are only minor sellers to China. Japan, the largest exporter to China, had a $156 million surplus in 1969, West Germany, $70 million; Australia, $84 million; and Canada, $88 million. This recent shift toward commercial dealings with the Western world is an encouraging development which has gone largely unnoticed in our own country.

However, the growth of trade between the United States and China will probably remain limited in the short run, even though the United States was a significant exporter to China from 1947–1950.

China has few items to sell which we can use, and as in the case of Eastern European markets, other nations are already ahead of us. Japan's geographical proximity to China has given Japan a distinct competitive edge over both Europe and the United States. In the very near future the only export possibilities from China to the United States appear to be specialized food products, furs, and high priced art objects.

To date China has financed its trade with the rest of the world mainly through the sale of foodstuffs and textiles to Hong Kong and Singapore. While the United States would not be a large market for these products, China could provide the United States with such minerals as tungsten, tin and antimony. Depending on the availability of hard currency, China could become a market for telecommunications and transport equipment and other high technology products. Looking further ahead, the things China would want from the United States would be technological processes and whole systems of production.

Assuming successful talks between the President and the Chinese leadership during their forthcoming meeting, trade and investment opportunities should materialize in the next few years. Even without the establishment of formal diplomatic relations with China, there is no reason why mutually beneficial commercial relations could not be started now. In Hungary, for example, the eminent position enjoyed by the head of the West German trade delegation in the absence of diplomatic recognition attests to the triumph of economic motivation over diplomatic niceties.

However, American businessmen would probably benefit more in the short run by concentrating their efforts on the more western portions of the East.

Recommendations

1. U.S. policies governing trade with the East have unquestionably resulted in the denial of significant earnings to American producers and exporters. Even if strategic considerations originally justified these controls, by 1971 we can see that these policies have failed. While western controls may have lengthened the time required for the development of certain weapons, we have clearly not been able to prevent the Soviet Union from gaining nuclear and conventional military parity with us. Our national security is certainly not being made more secure today by the continued denial of American materials and technology that can readily be obtained by the Soviet Union and other eastern countries from other industrialized countries. Our NATO allies have viewed East-West trade more in commercial than geopolitical terms. As a result, the patterns of trade they have already established with the East give them important advantages over U.S. firms.

For obvious security reasons we will probably have to maintain an embargo over the export of products and technology which would directly assist the long-range military capabilities of communist countries. But these controls should be re-examined in order to produce a comprehensive, specific listing of items which would boost communist military technology in a major way, and which are not available elsewhere. The licensing procedures should be further simplified so that the application process in itself does not inhibit trade initiatives. I was pleased to note that in June, $100 million in export licenses for sophisticated industrial processes were approved.

2. One important step that can be taken almost immediately is congressional action giving the President discretionary authority to conclude 3 year commercial agreements with nonmarket economy countries, including most-favored-nation tariff treatment. A bill granting the President this kind of authority will be introduced by Senator Magnuson, which I intend to cosponsor along with a number of other Senators. (This draft bill is printed at appendix F.) This proposed legislation would not automatically grant MFN treatment to countries indiscriminately nor to all of their products.

This legislation is particularly timely in that it would give the President actual authority to conclude a commercial agreement when he visits China. The bill is so drafted that formal diplomatic relations between the two countries need not precede such agreements.

3. Efforts must be intensified to draw the countries of the East into already existing international trade patterns. They should be encouraged to join such international organizations as the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT). Applications to the GATT from both Hungary and Romania are now pending, and it would be beneficial for all the member nations if they were admitted without undue delay.

In negotiating tariff agreements with Eastern European countries, special problems have been raised. Because imports in state trading economies are part of the overall economic plan, tariff schedules have little meaning. However, Poland, which was accepted as a member of the GATT in 1967, was able to work out an arrangement by which she undertook to increase her imports from all the other contracting parties by an annual percentage. I am confident that similar arrangements can be negotiated for other countries with nonmarket economies.

Bringing all the nations of the world into international trade and financial institutions will help promote cooperation for mutual benefit and enlarge the identity of interest of all participating countries.

4. The recent House-Senate conference action removing the restrictions on Export-Import Bank financing of credits for eastern countries offers an early opportunity to remove this barrier. With the greater availability of credit, the East can be expected to seek to satisfy its growth requirements for machinery, plant and equipment on an increasing scale from the United States. American companies should be alert to the considerable opportunities that will open up as a result.

5. Formidable communications and psychological barriers impede trade and commerce between the United States and the East. Basic differences exist between the operations of state operated monopolies in a nonmarket economy and the mechanisms used by banks and private corporations here. Unfamiliarity with methods and institutions breeds a built-in reluctance on both sides to embark on new commercial adventures with each other.

To help achieve a better working knowledge of the different systems, I have introduced a bill (printed at appendix G) establishing a new program of exchanges for the purpose of expanding trade between the United States and countries with nonmarket economies.

Participants in this program would include graduate-level university students, teachers, corporation executives and bankers from the United

States, and students, teachers, foreign trade officials, and state trading monopoly representatives of eastern countries.

Besides making provision for American participation in trade conferences, fairs, and seminars, the main goal of the bill is to carry out exchanges lasting for 1 to 2 years. This time would be spent both studying the theoretical aspects of East-West trade and in practical on-the-job training. A grantee would have the opportunity of placing himself in the other fellow's shoes. This newly acquired expertise of a host country's methods could later be used to good advantage in developing commercial ties.

Under this bill, exchange agreements could be negotiated between the United States and all countries with nonmarket economies—including the People's Republic of China. This program would help develop a degree of expertise on both sides which would make trading with each other much less of a mystery.

6. Those American businessmen who are attempting to do business in the East suffer not only from the legal restrictions, but from inadequate support from their own embassies abroad. We do not have a single full-time commercial attache at any of our embassies in Eastern Europe. While other western nations are able to perform valuable services in furthering the economic interests of their own nationals, American businessmen by contrast can receive only meager assistance from Foreign Service officers devoting only part time to this activity.

I have been told that one American corporation seeking business ties with an eastern country set up an affiliate in Austria for the sole purpose of being able to obtain the considerable commercial services offered by the Austrian Embassy in that country. This is a sad commentary on our government's efforts to promote exports and improve our balance of payments position. I strongly urge the Departments of State and Commerce to assign at least one full-time commercial officer to each of our Eastern European diplomatic posts.

CONCLUSIONS

While there has been increasing self-criticism in this country over our social and moral failures, the United States is still looked upon in awe by the East for our high standard of living and technological achievements. By now it is clear that the quest for economic development and profit can overcome ideological barriers. Sam Pisar in "Coexistence and Commerce" speaks of the creation of "transideological" corporations. They will continue to multiply and expand in the latter half of his century. Our country should take advantage of its great economic and technological strength and fully participate in this development.

Development of stronger and closer commercial ties with countries of the East will inevitably lead in the long run to more cooperation in other areas. As the economics of the different nations of the world become more interdependent, the thought of armed conflict will become more remote.

If we continue our present policy of tying any relaxation of our trade restrictions to political payoffs, we will be putting the cart before the horse. By forging strong economic ties with Eastern European countries, we will be lessening their dependence on the Soviet Union, and producing a diplomatic climate in which political problems can more easily be solved.

It would be unrealistic to expect that through an expansion of American economic ties we can significantly change the basic political orientation of the communist countries in Eastern Europe. But by normalizing our economic relations, we will be strengthening our own economy and creating opportunities for narrowing the political differences between East and West. New commercial ties will open channels of communication far beyond the present limited exchanges between a handful of diplomats and arms control negotiators.

If peaceful coexistence on this planet between countries with differing ideologies is the only rational course, the most rational policy for the United States to pursue would be to include all countries in a world system in which the mutual benefits from trade and commerce can be shared by all.

APPENDIXES

APPENDIX A

U.S. trade with U.S.S.R. and Eastern Europe, 1970 compared with 1969

[In millions of dollars]

	Exports		Imports	
	1970	1969	1970	1969
Total	$353.3	$249.3	$225.8	$195.5
East Germany	32.5	32.4	9.4	8.0
Czechoslovakia	22.5	14.4	23.9	24.1
Hungary	28.3	7.3	6.2	4.1
Poland	69.9	52.7	97.9	97.8
U.S.S.R	118.4	105.5	72.3	51.5
Albania	(1)	(1)	.2	.4
Rumania	66.4	32.4	13.4	8.0
Bulgaria	15.3	4.6	2.4	1.6

1 Less than $50,000.

APPENDIX B

Law on Foreign Trade and Technical-Scientific Cooperation Activities in the Socialist Republic of Romania

(The following extract, Articles 57 through 62 of Chapter V on "International Economic, Technical and Scientific Cooperation", represents that portion of the new Foreign Trade Law which pertains to foreign investment in Romania. The Law was passed by the Grand National Assembly on March 17, 1971 and became effective that date.)

Article 57.—Romanian economic organizations may cooperate with foreign economic companies and organizations in the joint building of economic projects in the Socialist Republic of Romania and abroad.

Article 58.—Romanian economic organizations may set up with the approval of the relevant bodies, joint companies in other countries or in the Socialist Republic of Romania in the domain of industrial and agricultural production, construction, transport and trade activities, as well as in technical-scientific research and services.

The conditions concerning the setting up, organization, duration and functioning of joint companies, the rights and obligations of the parties, the manner of building up the patrimony as well as of withdrawing the participating share, the criteria of benefit distribution as well as other specific clauses are laid down in the contract concluded by the parties.

Article 59.—The joint companies set up in Romania are corporate bodies and carry on their activities in keeping with the laws of the Socialist Republic of Romania; the share of the Romanian side in the patrimony of joint companies must be at least 51 per cent.

The contract for the setting up, organization and functioning of joint companies in Romania is filed with the Ministry of Foreign Trade and becomes valid after its approval.

Prior to approving the contract, the Ministry of Foreign Trade verifies that its provisions are in keeping with the laws and whether the setting up of the company is opportune.

Article 60.—The Romanian State ensures and guarantees the financial contribution of Romanian economic organizations to the joint companies in other countries and the functioning of joint companies in Romania.

Through its authorized institutions the Romanian State provides guarantees to foreign partners as to the transfer abroad of the redemption quotas and of benefits, as well as of other amounts due to them, after payment of legal taxes and the fulfillment of other obligation ensuring from the contract.

Article 61.—Foreign commercial firms and economic organizations may obtain the authorization for setting up agencies in the Socialist Republic of Romania under the conditions stipulated in the law.

Article 62.—On the basis of a law, harbours and zones free from customs and fiscal duties and taxation may be created on the territory of the Socialist Republic of Romania, for exports and imports.

APPENDIX C

SPEECH BY SENATOR ABRAHAM RIBICOFF, JUNE 15, 1971, BUDAPEST, HUNGARY, MANAGEMENT CENTER OF EUROPE, ANNUAL EAST-WEST TRADE CONFERENCE

Most men in policital life who started their careers in government in the 1940's have focused their attention on the political and military aspects of foreign problems. This should come as no great surprise, given the military conflicts and feverish diplomatic activities of this turbulent period. Our view of the world, and of our own countries' destinies was shaped in an era when giant men moved across the stage of history.

The peoples of the world during that period were led by epic leaders, who for good or ill, were able to change the course of history through the force of their own intellects and personalties. The United States had Franklin Roosevelt; England, Winston Churchill; France, Charles de Gaulle; and Russia, Joseph Stalin.

The energies of statesmen and governments were directed toward the redrawing of political boundaries and the preservation of a strategic balance of power.

During the second World War, my own country and the Soviet Union were able to put aside their ideological differences and join together to save Europe from the spectre of Nazism.

Following the war, the face of the globe was drastically rearranged, and the world shuddered under the impact of a number of revolutions occurring simultaneously—any one of which alone would have had the most far reaching consequences.

Colonial rule was overthrown in most of the Southern Hemisphere—and fledgling governments struggled to provide for their peoples.

A population explosion in the underdeveloped nations coincided with a revolution of rising expectations producing dangerous instabilities.

The dawning of a nuclear age threatened the very existence of all mankind for the first time.

The delicate balance of power maintained since the Congress of Vienna was replaced by the emergence of two superpowers.

A revolution in technology and scientific progress offered the promise of unprecedented abundance and prosperity.

But old attitudes and thinking persisted. Instead of harnessing their energies to meet the challenges of all of the great changes taking place, the nations of both East and West allowed a cold war to come between them and divert their limited resources.

Ironically, it was economic growth, not the support of military establishments, which became the number one priority of the two defeated Axis powers—Germany and Japan. And their stunning recovery and prosperity today attests to this singleness of purpose, and the wisdom of pursuing economic gain rather than military power.

Increasingly, technological, economic and trade considerations are determining the nature of relations between nations. American diplomacy during the past two decades illustrates how these new realities were largely ignored.

While the United States was concerned with the NATO order of battle, the Federal Republic of Germany was more concerned with orders for Volkswagens. While the U.S. was placing restrictions on its exports to the East, Western European trade with the East was flourishing.

I am convinced that during the last quarter of this century, ecopolitics will replace geopolitics as the prime mover in the affairs of nations.

I am also convinced that because of this, it is time to relegate the Cold War to the pages of history. In 1971 this is exactly where it belongs.

The recently concluded treaties between the Federal Republic of Germany and the Soviet Union, and between the Federal Republic and Poland bear witness.

And the increasing trade and investment flows between East and West also bear witness.

While politicians and diplomats still argue over the same old tired political issues, businessmen and bankers are rearranging the basic nature of relations between states and peoples. While the generals still busy themselves with planning their war games and maneuvers, increasing commerce between East and West, and the growing internationalization of production, are making the idea of a major armed conflict in Europe an absurdity.

The activities of multinational corporations, and the increasing use of joint ventures and consortiums are crossing frontiers and erasing national boundaries more surely and swiftly than the passage of armies and the conclusion of peace treaties. For 20 years the United Nations has been unable to agree on a definition of "aggression". But it certainly takes much less time than that for businessmen representing different nations and economic systems to bind themselves together in a mutually beneficial contract.

Whether one likes it or not, the nations of the world are becoming more dependent on each other. Those who are actively engaged in expanding trade and transmitting technology between East and West are in the front ranks of those creating these strong bonds of mutual interdependence.

What we don't need in attempting to cope with the implications of such a rapidly changing world are attempts at simple solutions. One of my own countrymen, some 50 years ago, aptly stated—"for every human problem, there is a solution which is neat, simple—and wrong".

The simple solutions of a much simpler bygone age just don't work anymore. The time is past due for all national leaders to discard the notion that exports are good and imports are bad. This is the same as saying production is good and consumption is bad. Or—that our standard of living improves when we give value away, but not when we receive value in turn.

It is time to grasp the idea that the process of international trade increases productivity as surely as machinery and technology does.

And any leader—of either East or West—who ignores the economic implications of his political actions does so at his peril.

As far as my own country is concerned, much should be done to provide for expanded trade with the East. Important steps in this direction have already been taken.

The number of items on our list of restricted exports to the East is steadily shrinking. This is reflected most dramatically in the steady increase in American exports to the East. In 1969, they totaled $249 million. In 1970 this rose to $353 million. And based on the current year's first quarter figures, exports in 1971 should reach $460 million. This has come about largely through legislation passed in 1969 which put the Congress of the United States on record as endorsing expanded trade with Eastern Europe and the Soviet Union.

Less than two weeks ago, export licenses for sophisticated industrial processes totaling $100 million were approved. More license approvals can be expected in the near future. And on the day I left for Europe, the esteemed Chairman of the Senate Commerce Committee, Senator Warren Magnuson, expressed to me the need for expanded trade with the East, including China. This is only one manifestation of the increasing support in the Congress for closer ties.

Since 1968 Eximbank credits have not been available to finance American exports to the East. However, only this past April the Senate overwhelmingly voiced its intention to make such credits available again. I am confident that this will be done.

Such actions taken by my own country, however, will not get to the heart of one of the most serious barriers to increased East-West trade. Trade must be a two-way street—and at present, there is a broad avenue of exports from West to East, but only a narrow path from East to West. Both Western Europe and the United States enjoy too healthy a trade surplus with the East. One important step that can be taken by my own country is the extension of most-favored-nation treatment to all the countries of Eastern Europe.

But this is not a magical formula which will automatically enable the East to sell enough to the United States to close this trade gap. There is still much that the countries of Eastern Europe must do to improve their export position.

They must be willing to commit a greater share of their own economies to foreign trade, and cease to regard it as an activity designed only to supplement domestic economic capabilities. They must be prepared to develop industries geared to exports, and be more willing to depend on imports. They must seek greater understanding of the requirements of the American market and consumer tastes, if they are to sell their products.

It is self-defeating to talk of an expansion of East-West trade if the present imbalance in East-West trade is not corrected. The figures involved are dismal. If Western Europe continues to maintain the same surplus in its trade with the East as it has done in the past few years, by 1980 there will be a projected $3.5 billion trade gap. The value of my own country's exports to the East this year will be almost double that of what it imports.

Aside from vigorous trade expansion programs, the East must also inject itself more forcefully into the mainstream of international trade and investment. The example of Poland's accession to the GATT should be emulated elsewhere. There should be more active interest shown in gaining membership in the International Monetary Fund and the World Bank.

I realize full well that these steps are not without certain risks. But it should be emphasized that both risks and the benefits will have to be shared equally by both East and West. Unless both sides show a willingness to move off dead center in settling of decades-old minor disputes, we will not be able to enjoy together the fruits of increased commercial relations.

Important changes have already taken place in the economies of the East—and I know you are all well acquainted with the rapid pace of reform undertaken here in Hungary, with its New Economic Mechanism. These changes are essential in meeting the requirements of international trade, and they have not been taken without attendant risks. In experimenting with different ways of modernizing and industrializing, the East should feel it will be able to draw more freely and easily upon the experience, technology and investment capital of the West. But it will not be able to do so unless it offers more information and greater assurance to Western investors and traders.

At the same time the West must be willing to provide even more than material assistance. It still remains the responsibility of the major trading countries, the U.S., the EEC and Japan, to establish workable norms of international trade and investment. The recent OECD ministerial meeting, which I attended in Paris last week, offered promise that a start has been made in this direction. A high-level consultative body has been set up to examine the current barriers to increased international trade and investment. Unless all of the trading nations of the world get behind efforts to harmonize and rationalize world trade, the great conflicts of the 1980's might well be trade wars between warring economic blocs.

In the years ahead, as nations realize that efficiency means greater reliance on economic rather than political considerations, both market and nonmarket economic systems will inevitably move closer to each other. It has been predicted that by 1980 two-thirds of all the employment in the United States will be in the service industries, and only one-third in the production of goods. As this same division holds true in other countries, and the export of services increases, it will become imperative for people to begin to understand the workings of different economic systems much better than they do today.

The communications and psychological barriers impeding trade and commerce remain formidable. The differences between the operations of state operated monopolies in a nonmarket economy, and the mechanisms used by private corporations in my own country are great. Unfamiliarity with methods and institutions breeds distrust and a reluctance to even consider commercial relations. While it will be more difficult to tear down emotional barriers, it should be less difficult to overcome the lack of knowledge.

In order to achieve better mutual understanding of our different systems, I shall propose to the Congress of the United States upon my return that a new program of exchanges be established with the purpose of expanding trade between countries of the East and the United States.

Participants in this program would include graduate-level university students, teachers, corporation executives and bankers in my country, and students, teachers, foreign trade officials, and state trading monopoly representatives of Eastern countries.

In order to be of practical value, the duration of these visits would be at least one year and perhaps two. The time spent abroad should be allocated in such a way as to include roughly equal periods of theory and practice. For example, nine months would be spent at a university and nine months in the offices of an American industry or bank, or in an Eastern European state trading organization, or foreign trade ministry.

A grantee would have the opportunity of obtaining a working knowledge of the financial and trading structures of the country he has visited and some actual time spent in the other fellow's shoes. The new expertise gained could go a long way in expanding U.S. trade with the East. I see no reason why this program could not include exchanges between the United States and all countries outside of Europe with nonmarket economies—including the People's Republic of China.

In order for a program of this kind to be successful, the costs and the responsibility for its operation will have to be shared equally by all the participants. By creating such a body of trained men, trade and investment opportunities now being lost by both sides could be developed for the benefit of all.

A program of this kind will also establish another important channel of fruitful contact between East and West on a nonconfrontation level.

Diplomatic discussions are too cautious and too restricted by outworn attitudes.

Cultural exchanges do not reach into the very inner workings of a society—and are usually too fleeting. Exchanges of people directly involved in producing tangible benefits for both sides offer the greatest chance of success.

Ultimately, only by broadening and deepening the base of discussions and meetings between representatives of East and West can the idea of peaceful coexistence be translated into reality.

Through mutual efforts and good will on both sides, and by a keener appreciation of how truly small the world has become, we will all benefit from what each nation has to offer in the marketplaces of goods and ideas.

The role that all of you here today will play in this process is crucial. It is not merely one of opening markets, maximizing profits, or creating material wealth. By improving economic relations between East and West, and by inducing greater responsibility and cooperation among the nations of the East and the West, you will also be perfecting the arts of peace. I can think of no worthier calling.

APPENDIX D

White House announcement of June 10, 1971

The President announced today the first broad steps in the termination of U.S. controls, on a large list of non-strategic U.S. exports to the People's Republic of China. In the future, a range of U.S. products listed on the attached sheet may be freely sold to China under open general export licenses without the need to obtain Department of Commerce permission for each specific transaction.

The items to be released from trade controls have been recommended by the NSC Under Secretaries Committee chaired by the Department of State. They include: most farm, fish and forestry products; tobacco; fertilizers; coal; selected chemicals; rubber; textiles; certain metals; agricultural, industrial and office equipment; household appliances; electrical apparatus in general industrial or commercial use; certain electronic and communications equipment; certain automotive equipment and consumer goods.

The President has also decided to terminate the need to obtain Department of Commerce permission for the export of wheat, flour, and other grains to China, Eastern Europe and the Soviet Union, suspending the 50% U.S. shipping requirement for these items.

Items not on the open general license list may be considered for specific licensing consistent with the requirements of U.S. national security. The Department of Commerce and other agencies will continue to review our export controls.

The President has also decided to permit all imports to enter from China under a general license, while retaining standby authority for future controls if necessary. Imports from the People's Republic of China will be subject to the tariff rates generally applicable to goods from most Communist countries. They will also be subject to the normal conditions governing our imports from all sources such as cotton textile controls and anti-dumping and countervailing duty legislation.

APPENDIX E

Major traders with Mainland China

[In millions of dollars]

Country	Exports			Imports		
	1960	1965	1969	1960	1965	1969
Free World, total	$637	$1, 252	$1, 366	$767	$1, 409	$1, 656
Asia:						
Japan	3	245	391	21	225	235
Hong Kong	2	3	1	208	406	445
Singapore	28	7	57	57	106	137
Malaysia			45			57
Ceylon	25	36	40	28	24	47
Australia	23	164	119	10	26	35
Canada	9	98	113	6	13	25
Europe:						
Germany, Federal Republic	95	79	158	69	73	88
United Kingdom	90	72	131	69	83	91
Italy	40	56	56	24	38	64
France	53	60	44	23	44	76

Note: Excluding trade of Cuba.

APPENDIX F

[S. ----, 92d Cong., first sess.]

A BILL To promote the economic well-being of the United States by providing authority to negotiate commercial agreements including the granting of most-favored-nation treatment with countries having nonmarket economies

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. This Act may be cited as the "East-West Trade Relations Act of 1971".

STATEMENT OF PURPOSES

SEC. 2. The purposes of this Act are—to increase trade and related contacts between the United States and countries presently not receiving most-favored-nation treatment and to expand markets for products of the United States in these countries by creating opportunities for the products of these countries to compete in United States markets on a nondiscriminatory basis.

AUTHORITY TO ENTER INTO COMMERCIAL AGREEMENTS

SEC. 3. The President may make commercial agreements with nonmarket economy countries, and notwithstanding the provisions of any other law, may by proclamation extend for the period of the duration of the agreement, most-favored-nation treatment to one or more products of this country whenever he determines that such agreement—

(a) will promote the purposes of this Act,

(b) is in the national interest, and

(c) will result in economic benefits to the United States commensurate to those provided by the agreement to the other party.

BENEFITS TO BE PROVIDED BY COMMERCIAL AGREEMENTS

SEC. 4. The benefits to the United States to be obtained in or in conjunction with a commercial agreement made under this Act may be of the following kind, but need not be restricted thereto:

(a) satisfactory arrangements for the protection of industrial rights and processes;

(b) satisfactory arrangements for the settlement of commercial differences and disputes;

(c) arrangements for establishment or expansion of United States trade and tourist promotion offices, for facilitation of such efforts as the trade promotion activities of United States commercial officers, participation in trade fairs and exhibits, the sending of trade missions, and for facilitation of entry and travel of commercial representatives as necessary;

(d) most-favored-nation treatment with respect to duties or other restrictions on the imports of the products of the United States, and other arrangements that may secure market access and assure fair treatment for products of the United States; or

(e) satisfactory arrangements covering other matters affecting relations between the United States and the country concerned, such as the settlement of financial and property claims and the improvement of consular relations.

PROVISIONS TO BE INCLUDED IN COMMERCIAL AGREEMENTS

SEC. 5. A commercial agreement made under this Act shall—

(a) be limited to an initial period specified in the agreement which shall be no more than three years from the time the agreement becomes effective;

(b) be subject to suspension or termination at any time upon reasonable notice;

(c) provide for consultations at regular intervals for the purpose of reviewing the operation of the agreement and relevant aspects of relations between the United States and the other party; and

(d) be renewable for additional periods, each not to exceed three years.

EXTENSION OF BENEFITS OF MOST-FAVORED-NATION TREATMENT

SEC. 6. (a) In order to carry out a commercial agreement made under this Act and notwithstanding the provisions of any other law, the President may by proclamation extend nost-favored-nation treatment to one or more products of the foreign country entering into such commercial agreement: *Provided,* That the application of most-favored-nation treatment shall be limited to the period of effectiveness of such commercial agreement.

(b) The President may at any time suspend or terminate any proclamation issued under subsection (a). The President shall suspend or terminate such proclamation whenever he determines that—

(1) the other party to a commercial agreement made under this Act is no longer fulfilling its obligations under the agreement; or

(2) the suspension or termination of the agreement is in the national interest.

(c) The Secretary of the Treasury shall issue specific regulations concerning problems likely to arise in the application of anti-dumping and countervailing duty legislation to imports from state trading entities.

ADVICE FROM GOVERNMENT AGENCIES AND OTHER SOURCES

SEC. 7. Before making a commercial agreement under this Act, the President shall seek information and advice with respect to such agreement from the interested departments and agencies of the United States Government, from interested private persons, and from such other sources as he may deem appropriate.

TRANSMISSION OF REPORTS TO CONGRESS

SEC. 8. The President shall submit to the Congress an annual report on the commercial agreements program instituted under this Act. Such report shall include information regarding negotiations, benefits obtained as a result of commercial agreements, the texts of any such agreements, and other information relating to the program.

RELATION TO OTHER LAWS

SEC. 9. (a) This Act shall not apply to any agreement made with a country whose products are receiving, when such agreement is made, the benefits of trade agreement concessions extended in accordance with section 231(b) of the Trade Expansion Act of 1962 (19 U.S.C. 1861(b)).

(b) Nothing in this Act shall be deemed to modify or amend the Export Control Act of 1949 (50 U.S.C. App. sec. 2021 et seq.) or the Mutual Defense Assistance Control Act of 1951 (22 U.S.C. sec. 1611 et seq.).

(c) The President may by proclamation terminate headnote 4 to schedule 1, part 5, subpart B of the Tariff Schedules of the United States (77A Stat. 32, 19 U.S.C. sec. 1202) with respect to the products of any country to which it is applicable upon the entry into force of a commercial agreement made under this Act with such country.

(d) Any commercial agreement made under this Act shall be deemed a trade agreement for the purposes of title III of the Trade Expansion Act of 1962 (19 U.S.C. sec. 1901 et seq.).

(e) The portion of general headnote 3(e) to the Tariff Schedules of the United States that precedes the list of countries and area (77A Stat. 11; 70 Stat. 1022) is amended to read as follows:

"(e) PRODUCTS OF NON-MARKET COMMUNIST COUNTRIES.—Notwithstanding any of the foregoing provisions of this headnote, the rates of duty shown in column numbered 2 shall apply to products, whether imported directly or indirectly, of the countries and areas that have been specified in section 401 of the Tariff Classification Act of 1962, in sections 231 and 257(e)(2) of the Trade Expansion Act of 1962, or in actions taken by the President thereunder and as to which there is not in effect a proclamation under section 6(a) of the East-West Trade Relations Act of 1971. These countries and areas are:"

APPENDIX G

[S. 2460, 92d Cong., first sess.]

Mr. Ribicoff (for himself and Mr. Magnuson) introduced the following bill which was read twice and referred to the Committee on Commerce.

A BILL To provide for the expansion of trade by a program of exchanges between the United States and countries with non-market economies, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, this Act may be cited as the "East-West Trade Exchange Act of 1971."

STATEMENT OF PURPOSE

SEC. 2. It is the purpose of this Act to—

(1) promote the economic growth of the United States by expanding trade between the United States and Eastern Europe, the Soviet Union, and other foreign countries with non-market economies including the People's Republic of China.

(2) provide a body of expertise and experience in conducting trade and operating joint ventures between foreign countries having different economic systems, and

(3) broaden commercial ties and provide new market and investment opportunities for American business and job opportunities for American workers,

through an exchange of citizens involved in all aspects of international trade of the United States and of countries with non-market economies and through programs of education, and practical experience in the field of East-West trade for such citizens from the participating countries.

PROGRAM AUTHORIZED

SEC. 3. (a) The Secretary of Commerce (hereinafter referred to as the "Secretary") is authorized, with the approval of the President, to provide by grant, contract, or other arrangement for—

(1) education and vocation exchanges—

(A) by financing studies, research, instruction, and on-the-job training activities—

(i) of or for American citizens and nationals in foreign countries having non-market economies, and

(ii) of or for citizens and nationals of foreign countries having non-market economies in American educational institutions, banks, corporations and firms dealing in foreign trade located in the United States,

for such citizens and nationals who are involved in any significant aspect of international trade, and

(B) by financing visits and interchanges between the United States and other foreign countries having non-market economies for such citizens and nationals;

(2) trade conferences and exchanges by financing appropriate activities for government officials, experts, and private businessmen, in the field of international trade for American citizens and nationals and for citizens of foreign countries having non-market economies; and

(3) United States participation in international trade fairs at which there is significant participation by foreign countries having non-market economies.

(b) In order to carry out the purposes of this Act, the Secretary is authorized to—

(1) provide for the exchange between the United States and other foreign countries having non-market economies of scientific, technical, and scholarly books, and government publications and the reproduction and translation of written material concerning international trade between market and non-market economies;

(2) encouraging and supporting American studies in foreign countries having non-market economies through professorships, lectureships, institutions, and seminars on international trade, particularly such trade between countries having market and non-market economies; and

(3) provide for the participation, by groups and individuals involved in all aspects of international trade from countries having non-market economies, in educational and technical meetings held under American auspices in or outside the United States.

INTERNATIONAL AGREEMENTS

SEC. 4. (a) In order to carry out the purposes of this Act, the President is authorized to enter into agreements with foreign countries having non-market economies and, when appropriate, international organizations. In such agreements the President is authorized, when he deems it in the public interest, to seek the agreement of the other governments concerned to cooperate and assist, including making use of any local currency funds located in such countries, in providing for the activities authorized in section 3, with respect to the expenses of international transportation of their own citizens and nationals and of activities in furtherance of the purposes of this Act carried on within the border of such other countries.

(b) Such agreements may also provide for the creation or continuation of binational or multinational trade foundations and commissions for the purpose of administering programs in furtherance of the purposes of this Act.

(c) In such agreements with international organizations, the President may provide for equitable United States participation in and support for, including a reasonable share of the cost of, programs which the President determines are consistent with and contribute to carrying out the purposes of this Act which are to be administered by such organizations.

ACTIVITIES OUTSIDE THE UNITED STATES

SEC. 5. (a) For the purpose of performing the negotiating functions under this Act outside the United States, particularly in binational or multinational foundations or commissions, the Secretary of State may employ or assign or authorize the employment or assignment, for the duration of operations under this Act, of persons in or to the Foreign Service Reserve or Foreign Service Staff and alien clerks and employees in accordance with applicable provisions of the Foreign Service Act of 1946.

(b) In carrying out his functions under this section, the Secretary of State shall—

(1) cooperate with the Secretary of Commerce by coordinating his activities with the Secretary of Commerce; and

(2) to the extent practicable at the request of the Secretary of Commerce, include officers and employees of the Department of Commerce in such assignments.

GRANTS

SEC. 6. (a) In order to carry out his functions under this Act, the Secretary is authorized to make grants to or for individuals, either directly or through foundations, educational institutions, and other nonprofit, private organizations for tuition and other necessary incidental expenses, and for travel expenses from their places of residence and return for themselves, and, whenever it would further the purposes of this Act, for the dependent members of their immediate families, for health and accident insurance premiums, emergency medical expenses, costs of preparing and transporting to their former homes the remains of any of such persons who may die while away from their homes as participants or dependents of participants in any program under this Act, and for per diem in lieu of subsistence at rates prescribed by the President, for all such persons, and for such other expenses as are necessary for the successful accomplishment of the purposes of this Act.

(b) Funds available for programs under this Act may be used (1) to provide for orientation courses, language training, or other appropriate services and materials for persons traveling out of the countries of their residence for purposes which further the purposes of this Act, whether or not they are receiving other financial support from the Government, and (2) to provide or continue services to increase the effectiveness of such programs following the return of such persons to the countries of their residence.

ADMINISTRATIVE PROVISIONS

SEC. 7. (a) In addition to any other authority invested in the Secretary under this Act, the Secretary is authorized to—

(1) prescribe such regulations as he deems necessary to carry out his functions under this Act;

(2) receive money and other property donated, bequeathed, or devised, without conditions or restriction other than that it be used for the purposes of this Act; and to use, sell, or otherwise dispose of such property for the purpose of carrying out the purposes of this Act;

(3) in his discretion, receive (and use, sell, or otherwise dispose of, in accordance with paragraph (2)) money and other property donated, bequeathed, or devised to the United States with a condition or restriction, including a condition that the Department of Commerce use other funds of the Department of Commerce for the purposes of the gift;

(4) appoint and fix the compensation of such personnel as may be necessary to carry out the provisions of this Act;

(5) obtain the services of experts and consultants in accordance with the provisions of section 3109 of title 5, United States Code, at rates for individuals not to exceed $125 per diem;

(6) accept and utilize the services of voluntary and noncompensated personnel and reimburse them for travel expenses, including per diem, as authorized by section 5703 of title 5, United States Code;

(7) enter into contracts, grants, or other arrangements or modifications thereof to carry out the provisions of this Act, or any other provision of law relating to competitive bidding;

(8) make advances, progress, and other payments which the Board deems necessary under this Act without regard to the provisions of section 3648 of the Revised Statutes, as amended (31 U.S.C. 529); and

(9) provide for publicity and promotion outside the United States in foreign countries having non-market economies, of activities and opportunities authorized pursuant to this Act.

(b) The Secretary shall submit to the President and to the Congress an annual report of activities carried out and expenditures made in carrying out the provisions of this Act. In each such report transmitted to the Congress, the President shall include the text of agreements made with other foreign countries during the period covered by the report.

FOREIGN CURRENCIES

SEC. 8. (a) In order to make available to individuals eligible to participate in programs authorized by section 3(a)(1) with currencies of their respective countries (other than excess foreign currencies), United States dollars in such amounts as may be necessary to enable such foreign individuals on coming temporarily to the United States to meet their necessary expenses, the President is authorized to establish rates at which all foreign currencies may be acquired for the purpose of this section. The President shall issue regulations binding upon all embassies with respect to exchange rates to be applicable in each of the respective countries where currency exchanges are to be authorized by him.

(b) In performing his functions under this section, the President shall make suitable arrangements for protecting the interests of the United States Government in connection with the ownership, use, and disposition of all foreign currencies acquired pursuant to exchanges made under such section.

(c) Any individual shall be eligible to exchange foreign currency for United States dollars at United States embassies under this section only if he gives satisfactory assurances that—

(1) he will devote essentially full time to his proposed educational activity in the United States and will maintain good standing in relation to such program;

(2) he will return to the country of his citizenship or nationality prior to coming to the United States and will render such public service as is determined acceptable for a period of time determined reasonable and necessary by the government of such country; and

(3) he will not apply for an immigrant visa or for permanent residence or for a nonimmigrant visa under the Immigration and Nationality Act after having received any benefits under this section for a period of time equal to the period of study, research, instruction, or other educational activity he performed pursuant to this Act.

(d) As used in this section, the term "excess foreign currencies" means foreign currencies, which if acquired by the United States (1) would be in excess of the normal requirements of departments, agencies, and embassies of the United States for such currencies, as determined by the President, and (2) would be available for the use of the United States Government under applicable agreements with the foreign country concerned.

ADVISORY COUNCIL ON EAST-WEST TRADE EXCHANGES

SEC. 9. (a) There is established an Advisory Council on East-West Trade Exchanges (hereinafter referred to as the "Advisory Council") composed of 10 members appointed by the President from among individuals who are widely recognized by reason of experience, education, or scholarship as specially qualified to serve on such Advisory Council. Members of the Advisory Council shall be appointed without regard to their political affiliation.

(b) The Advisory Council shall formulate and recommend to the President and to the Secretary of Commerce policies for carrying out the provisions of this Act and shall evaluate the effectiveness of programs conducted under this Act.

(c) The Advisory Council shall select its own chairman and vice chairman.

(d) Each member of the Advisory Council who is appointed from private life shall receive $125 per diem (including travel time) for each day during which he is engaged in the actual performance of his duties as a member of the Council. A member of the Council who is in the legislative, executive, or judicial branch of the United States Government shall serve without additional compensation. All members of the Council shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of their duties.

AUTHORIZATION OF APPROPRIATIONS

SEC. 10. There are authorized to be appropriated for the purpose of carrying out the provisions of this Act such sums as may be necessary.

SEC. 11. Section 101(a)(15)(J) of the Immigration and Nationality Act is amended by inserting "or by the Secretary of Commerce" after "Secretary of State".

O